

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF LEJWELEPUTSWA DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Lejweleputswa District Municipality which comprise the balance sheet as at 30 June 2009, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion the financial statements of the Lejweleputswa District Municipality as at 30 June 2009 have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA.

Governance framework

16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

17. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

| No. | Matter | Y | N |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|
| Clear trail of supporting documentation that is easily available and provided in a timely manner | | | |
| 1. | No significant difficulties were experienced during the audit concerning delays or the availability of requested information. | X | |
| Quality of financial statements and related management information | | | |
| 2. | The financial statements were not subject to any material amendments resulting from the audit. | | X |
| 3. | The annual report was submitted for consideration prior to the tabling of the auditor's report. | X | |
| Timeliness of financial statements and management information | | | |
| 4. | The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA. | X | |
| Availability of key officials during audit | | | |
| 5. | Key officials were available throughout the audit process. | X | |
| Development and compliance with risk management, effective internal control and governance practices | | | |
| 6. | Audit committee | | |
| | • The municipality had an audit committee in operation throughout the financial year. | X | |
| | • The audit committee operates in accordance with approved, written terms of reference. | X | |
| | • The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | | X |
| 7. | Internal audit | | |
| | • The municipality had an internal audit function in operation throughout the financial year. | | X |
| | • The internal audit function operates in terms of an approved internal audit plan. | | X |
| | • The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | | X |
| 8. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management. | | X |
| 9. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. | | X |
| 10. | The information systems were appropriate to facilitate the preparation of the financial statements. | X | |
| 11. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section | | X |

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

23. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

24. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the MSA.

The Auditor-General's responsibility

25. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

26. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

27. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Content of integrated development plan (IDP)

28. The key performance indicators set by the municipality did not include four general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA.
29. The financial plan reflected in the district municipality's IDP does not include a budget projection for at least the next three years, as required by section 26(h) of the MSA and regulation 2(3) of the Municipal Planning and Performance Regulations, 2001.
30. Evidence could not be obtained that the municipal manager submitted to the MEC for Cooperative Governance and Traditional Affairs a copy of the IDP as adopted by the council of the municipality and any subsequent amendment to the plan within 10 days of adoption or amendment of the plan, as required by section 32(1)(a) of the MSA.
31. Although the municipal council reviewed the IDP, evidence regarding the involvement of the community or other organs of state, as required by section 29(1)(b) of the MSA, could not be obtained.
32. The output and outcome indicators in respect of the development priorities and objectives set out in the IDP are not adhered to, as required by section 26(c) of the MSA and regulation 9 of the Municipal Planning and Performance Management Regulations, 2001.
33. Evidence that the municipality ensured that the annual performance objectives and indicators for the Lejwe Le Putswa Development Agency were established in agreement with the municipal entity's multi-year business plan as required by section 87(5)(d) of the MFMA could not be obtained.
34. The municipality did not include performance targets in their IDP, as required by regulation 12(1) and 12(2)(e) of the Municipal Planning and Performance Management Regulations, 2001.

- Two objectives reported in respect of the key performance area relating to good governance and community participation in the annual performance report could not be traced to the IDP.
- A difference was also noted between the content of objective of grading guest houses and bed and breakfast establishments included in the IDP and the annual performance plan in respect of the key performance area relating to local economic development.

APPRECIATION

42. The assistance rendered by the staff of the Lejweleputswa District Municipality during the audit is sincerely appreciated.

Auditor-General

Bloemfontein

30 November 2009



**AUDITOR-GENERAL
SOUTH AFRICA**

Auditing to build public confidence